

ENC 2

COUNTY OF ALPINE
SINGLE AUDIT REPORT
JUNE 30, 2008

SAR
6/15/09

COUNTY OF ALPINE

Single Audit Report
For the Year Ended June 30, 2008

Table of Contents

	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	3-5
Schedule of Expenditures of Federal Awards.....	6-8
Notes to Schedule of Expenditures of Federal Awards	9-10
Schedule of Findings and Questioned Costs.....	11-24
Summary Schedule of Prior Audit Findings.....	25
Supplementary Schedule of Grant Expenditures	26



GALLINA_{LLP}

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Supervisors
County of Alpine
Markleeville, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Alpine (County), as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated June 5, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the

Board of Supervisors
County of Alpine

entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 08-FS-1, 08-FS-2, 08-FS-3, 08-FS-4 and 08-FS-5 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 08-FS-4 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the County of Alpine in a separate letter dated June 5, 2009

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, Board of Supervisors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gallina LLP

Roseville, California
June 5, 2009



GALLINA_{LLP}

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Supervisors
County of Alpine
Markleeville, California

Compliance

We have audited the compliance of the County of Alpine, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The County of Alpine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County of Alpine's management. Our responsibility is to express an opinion on the County of Alpine's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County of Alpine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County of Alpine's compliance with those requirements.

In our opinion, the County of Alpine complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 08-SA-1.

Board of Supervisors
County of Alpine

Internal Control Over Compliance

The management of the County of Alpine is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County of Alpine's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County of Alpine's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questions costs as item 08-SA-1 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 08-SA-1 to be a material weakness.

Board of Supervisors
County of Alpine

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County as of and for the year ended June 30, 2008, and have issued our report thereon dated June 5, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The County of Alpine's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County of Alpine's response and, accordingly, we express no opinion on them.

The Supplementary Schedule of Grant Expenditures, beginning on page 26, have not been subjected to auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

We noted certain matters that we reported to management of the County of Alpine in a separate letter dated June 5, 2009.

This report is intended solely for the information and use of the audit committee, management, Board of Supervisors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Roseville, California
June 5, 2009

COUNTY OF ALPINE

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Passed through State Department of Social Services:			
Food Stamps	10.551	--	\$ 101,793
State Administrative Matching Grants for Food Stamp Program	10.561	--	56,373
Subtotal			<u>158,166</u>
Passed through State Controller's Office:			
Schools and Roads – Grants to States	10.665*	--	<u>480,474</u>
Total U.S. Department of Agriculture			<u>\$ 638,640</u>
<u>U.S. Department of the Interior</u>			
Direct Program:			
Payments in Lieu of Taxes	15.226	--	<u>83,853</u>
Total U.S. Department of the Interior			<u>\$ 83,853</u>
<u>U.S. Department of Justice</u>			
Passed through State Office of Emergency Services:			
Victim Witness Program	16.575	VW07080020	15,577
Anti-Drug Abuse Grant	16.738	DC07180020	<u>108,879</u>
Total U.S. Department of Justice			<u>\$ 124,456</u>
<u>U.S. Department of Transportation</u>			
Passed through State Department of Transportation:			
Federal Transit Administration Section 5305	20.507	--	50,000
Federal Transit Administration Section 5311	20.507	--	<u>40,000</u>
Total U.S. Department of Transportation			<u>\$ 90,000</u>

COUNTY OF ALPINE

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through State Department of Social Services:			
Family Preservation and Support Services	93.556	--	\$ 1,393
Temporary Assistance for Needy Families	93.558*	--	225,726
Child Welfare Services – State Grants	93.645	--	15,436
Foster Care – Title IV-E	93.658*	--	169,559
Adoption Assistance Program	93.659	--	26,929
In Home Supportive Services	93.667	--	40,976
Independent Living	93.674	--	1,393
Subtotal			<u>481,412</u>
Passed through State Department of Health Services:			
Medical Assistance Programs	93.778	--	44,310
Maternal and Child Health Services	93.994	--	52,639
Children's Medical Services	93.994	--	35,226
Subtotal			<u>132,175</u>
Passed through State Department of Public Health:			
Public Health Emergency Preparedness Program	93.069	--	55,135
Hospital Preparedness Program	93.889	--	118,120
Subtotal			<u>173,255</u>
Passed through State Department of Mental Health:			
Substance Abuse and Mental Health Services Administration (SAMSHA)	93.958	--	<u>13,166</u>
Passed through State Department of Alcohol and Drug Abuse Programs:			
Block Grants for Prevention and Treatment of Substance Abuse (SAPT)	93.959*	--	<u>288,985</u>
Total U.S. Department of Health and Human Services			<u>\$ 1,088,993</u>

COUNTY OF ALPINE

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of Homeland Security</u>			
Passed through State Department of Homeland Security:			
FY 06 Homeland Security Grant Program - SHSP	97.073	2006-71	\$ 51,174
FY 06 Homeland Security Grant Program - LETPP	97.074	2006-71	50,901
Subtotal			<u>102,075</u>
Passed through Governor's Office of Emergency Services:			
Emergency Management Planning Grant FY07	97.042	2007-6	50,141
Staffing for Adequate Fire and Emergency Response	97.083	--	3,770
Subtotal			<u>53,911</u>
Total U.S. Department of Homeland Security			<u>\$ 155,986</u>
Total Expenditures of Federal Awards			<u>\$ 2,181,928</u>

COUNTY OF ALPINE

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2008

Note 1: **Reporting Entity**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the County of Alpine. The County of Alpine's reporting entity is defined in Note 1 to the County's basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

Note 2: **Basis of Accounting**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County and is presented on accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 3: **Relationship to Financial Statements**

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the County's financial statements. Federal award revenues are reported principally in the County's financial statements as intergovernmental revenues in the General and Special Revenue funds.

Note 4: **Pass-Through Entities' Identifying Number**

When federal awards were received from a pass-through entity; the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the County determined that no identifying number is assigned for the program or the County was unable to obtain an identifying number from the pass-through entity.

Note 5: **Subrecipients**

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, the County of Alpine provided federal awards to subrecipients as follows:

Federal CFDA	Program Title	Amount
93.959	Block Grants for Prevention and Treatment of Substance Abuse (SAPT)	\$ 197,979

COUNTY OF ALPINE

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2008

Note 6: **Program Clusters**

Federal programs, which must be audited together as a program cluster, include the following:

<u>Federal CFDA</u>	<u>Program Title</u>	<u>Federal Expenditures</u>
<u>Food Stamp Cluster:</u>		
10.551	Food Stamps	\$ 101,793
10.561	State Administrative Matching Grants for Food Stamp Program	<u>56,373</u>
	TOTAL	<u>\$ 158,166</u>
<u>Homeland Security Cluster:</u>		
97.073	FY 06 Homeland Security Grant Program – SHSP	\$ 51,174
97.074	FY 06 Homeland Security Grant Program – LETPP	<u>50,901</u>
	TOTAL	<u>\$ 102,075</u>

COUNTY OF ALPINE

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2008

Section 1

Financial Statements

Summary of Auditor's Results

- | | |
|--|-------------|
| 1. Type of auditor's report issued: | Unqualified |
| 2. Internal controls over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|-------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | No |
| 2. Type of auditor's report issued on compliance for major programs: | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? | Yes |
| 4. Identification of major programs: | |

CFDA Number

- | | |
|---|---|
| 10.665 | Schools and Roads – Grants to States |
| 93.558 | Temporary Assistance for Needy Families |
| 93.658 | Foster Care – Title IV-E |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse (SAPT) |
| 5. Dollar threshold used to distinguish between Type A and Type B programs? | \$300,000 |

COUNTY OF ALPINE

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2008

Section 1 (continued)

Financial Statements

Summary of Auditor's Results

6. Auditee qualified as a low-risk auditee under
OMB Circular A-133, Section 530?

No

Section 2

Financial Statement Findings

Preparation of the Schedule of Expenditures of
Federal Awards

Finding 08-FS-1

Classification of trust fund accounts

Finding 08-FS-2

Use of Accounting System

Finding 08-FS-3

Processes to identify deferred revenue balances

Finding 08-FS-4

Controls to ensure accuracy and completeness of
financial statement disclosures

Finding 08-FS-5

Section 3

Federal Award Findings and Questioned Costs

CFDA 93.558

Finding 08-SA-1

COUNTY OF ALPINE

Schedule of Findings and Questioned Costs Financial Statement Findings For the Year Ended June 30, 2008

Finding/Subject	Findings/Noncompliance
Finding 08-FS-1	<i>Reporting Requirement: Significant Deficiency</i>
Preparation of the Schedule of Expenditures of Federal Awards	<p data-bbox="431 472 532 504"><u>Criteria</u></p> <p data-bbox="431 541 1468 934">As auditors are required to render an opinion on the Schedule of Expenditures of Federal Awards (SEFA) in relation to the basic financial statements, the requirements of SAS 112, discussed in finding 08-FS-3, apply to the preparation of the SEFA as well as the preparation of the basic financial statements. Accordingly, the County should have the capacity to prepare a SEFA in accordance with generally accepted accounting principles. To carry out this responsibility, the County must have proper internal controls over financial reporting in place. Proper internal controls over financial reporting include, but are not limited to, internal controls that identify misstatements in the SEFA, retaining staff competent in SEFA reporting and related oversight roles, and adequate design of internal control over the preparation of the SEFA.</p> <p data-bbox="431 972 560 1003"><u>Condition</u></p> <p data-bbox="431 1041 1468 1255">The County made significant improvements from prior years in its preparation of the SEFA. However, there were still errors that should have been identified and corrected earlier by the County. One program was omitted from the original SEFA and other adjustments were made to correct amounts. There were also a few programs included on the SEFA that did not originally include the CFDA number, pass through grantor number and proper program title.</p> <p data-bbox="431 1293 665 1325"><u>Cause/Perspective</u></p> <p data-bbox="431 1362 1468 1472">This is the first year that the County has attempted to prepare the SEFA without the auditors doing a significant portion of the work. The County is still working on a more structured process to prepare the SEFA.</p> <p data-bbox="431 1509 678 1541"><u>Effect of Condition</u></p> <p data-bbox="431 1579 1468 1719">Not having proper controls in place to identify all federal programs and their required components for the SEFA results in an incomplete SEFA. This may also result in an improper major program determination and more programs being audited than required.</p>

COUNTY OF ALPINE

Schedule of Findings and Questioned Costs Financial Statement Findings For the Year Ended June 30, 2008

Finding/Subject	Findings/Noncompliance
Finding 08-FS-1 (continued)	<u>Recommendation</u> We recommend that the County develop written internal control procedures for preparation of the SEFA. These controls should include identification of all federal programs, reporting the correct amount of expenditures and including all required information on the SEFA for each major program. We also recommend that the County have more than one person review the SEFA to help ensure that the SEFA is complete and accurate.
Preparation of the Schedule of Expenditures of Federal Awards	<u>Management Response/Corrective Action Plan</u> All single audit responsibility will be in the Auditor's office. The Assistant Auditor will be the coordinator. The Auditor will review. Both the Assistant and the Auditor will participate in training programs for Single Audit preparation and develop written internal procedures.
Finding 08-FS-2	<i>Reporting Requirement: Significant Deficiency</i>
Classification of Trust Fund Accounts	<u>Criteria</u> Under Governmental Accounting Standards Board (GASB) Statement No. 34, amounts formally held in trust but used to support the County's own programs should be reported as funds within the County's reporting entity so as to ensure all economic resources that can be used by the County are reported in their financial statements. Activity in these accounts is required to be included in the County's reporting entity, either as additional funds or transactions in existing County funds. Use of the agency fund type is limited to resources the County holds purely in a custodial capacity for individuals or other organizations, such as school districts and special districts not governed by the County Board of Supervisors.
	<u>Condition</u> The County accounts for all agency funds in one consolidated fund. This fund includes accounts holding resources, although restricted as to purpose, that can be used to support the County's functions and activities For annual financial reporting purposes, the transactions and balances are summarized on an electronic spreadsheet and combined with the balances and transactions of the funds listed below. This process is accomplished outside of the County's general ledger system.

COUNTY OF ALPINE

Schedule of Findings and Questioned Costs Financial Statement Findings For the Year Ended June 30, 2008

<u>Finding/Subject</u>	<u>Findings/Noncompliance</u>
Finding 08-FS-2 (continued)	<u>Cause</u> <p>The County is using the agency fund vehicle to set aside resources that cannot be used immediately in its budget either because of program restrictions or actions taken by the County's governing board to set aside resources for use at a later time. This is a common occurrence among California counties as the State Controller's Office has not completely updated their accounting and reporting guidance and requirements for Counties to be consistent with recent changes in the reporting standards for governments.</p>
Classification of Trust Fund Accounts	<p>Departments are reluctant to eliminate trust fund accounts because inclusion of such resources within their budget units might influence future budgetary decisions.</p>
	<u>Effect of Condition</u> <p>By excluding these balances and transactions, balances for assets, liabilities, revenues and expenditures in the County's financial reports (including budgetary reports) are materially misstated.</p> <p>There is the potential to double report revenues when resources are transferred into operating funds. Not using the accounting system to control the flow of revenues increases the potential for reporting revenues twice.</p> <p>By not using the accounting system to account for the activity of these trust funds, the County's general ledger does not translate the information for inclusion in the County's financial report. In addition, because the County does not budget for any activity occurring in agency funds, significant deviations from the adopted budget are not apparent until well after the end of the fiscal year and thus cannot be addressed when they occur.</p>
	<u>Recommendation</u> <p>Given that the Auditor-Controller's office does not employ accounting staff experienced at managing complex accounting solutions, we propose the simplest solution available. For each account identified as holding resources available to support County functions and activities, we recommend the Auditor-Controller's Office create a new fund in its accounting system having the full functionality of reporting revenues and expenditures. The new funds will be combined with County operating funds during the trial balance coding process when preparing the financial statements. This will eliminate the need for additional bookkeeping journal entries to consolidate trust fund activities with the County's operating funds.</p>

COUNTY OF ALPINE

Schedule of Findings and Questioned Costs Financial Statement Findings For the Year Ended June 30, 2008

Finding/Subject	Findings/Noncompliance
Finding 08-FS-2 (continued)	<u>Management Response</u>
Classification of Trust Fund Accounts	The Auditor's office will review trust fund classifications and consolidate trusts that are not agency funds into special revenue funds with full functionality of reporting revenues and expenditures. This reconfiguration of trust funds will be in compliance with GASB 34.
Finding 08-FS-3	<i>Reporting Requirement: Significant Deficiency</i>
Use of Accounting System	<u>Criteria</u> Statement on Auditing Standard No. 112, <i>Communicating Internal Control Related Matters Identified in an Audit</i> (SAS 112) applies to an entity's internal controls over the preparation of its financial statements. The standard provides guidance to the auditor in evaluating an entity's internal controls over financial reporting. This standard was adopted recently and is the direct result of the Sarbanes-Oxley legislation passed after the fall of Enron. SAS 112 redefined the definitions auditors use to assess findings and, in many cases, lowered the threshold for reporting to the governing body. The new standard establishes clearer guidance on the responsibilities of auditees within the context of a financial statement audit. As an auditee, the County is responsible for the preparation of full disclosure financial statements in accordance with reporting standards. It is the County's responsibility to translate their general ledger into a format which allows for the preparation of financial statements in accordance with generally accepted accounting standards. While an auditor may still compile information into the proper format, the County must have proper internal controls over financial reporting in place to ensure that the information provided to the auditor will result in full disclosure, GAAP-compliant financial statements without auditor adjustment. With regard to the information and communication element of COSO's Internal Control – Integrated Framework, pertinent financial information should be identified and captured in a form and timeframe that supports the financial reporting objectives. Financial reporting objectives have been identified as financial statements which are prepared in accordance with governmental accounting standards and principles. Essential to achievement of this principle is an accounting system that captures all data underlying the financial statements including receivables, payables, deposits, deferred revenues and interfund balances.

COUNTY OF ALPINE

Schedule of Findings and Questioned Costs Financial Statement Findings For the Year Ended June 30, 2008

Finding/Subject	Findings/Noncompliance
Finding 08-FS-3 (continued)	<u>Condition</u>
Use of Accounting System	<p>The County does not record all closing entries needed to convert its cash basis general ledger to the modified accrual basis of accounting used for financial reporting purposes. The County's accounting processes utilize only a limited range of the functionality available in its current accounting system. Although the County now captures some receivables and payables (but not all), the County's chart of accounts does not include accounts for deposits, interest receivable, property taxes receivable, interfund balances and deferred revenues.</p>
	<p>The Auditor-Controller's Office, outside of the accounting system, collects information about accruals such as receivables and payables and other balances such as capital assets, long-term debt, trust funds, deposits and interfund balances. This information is provided in a variety of ways including electronic spreadsheets and reports extracted from applications external to the County's accounting system. The County's external auditors aggregate this information and combine it with information from the County's cash basis general ledger to produce financial statements that are prepared in accordance with governmental generally accepted accounting principles, the principal reporting standard used by California's fifty eight counties. At the same time, similar type balances from the prior year are reversed so as to remove their effect upon current year results.</p>
	<u>Cause</u>
	<p>Prior to the issuance of SAS 112, the County was able to rely on the external auditors to assist with the financial statements and related notes without the situation being considered a control deficiency. Historically, many of California's smaller counties have relied on their independent external auditors to assist in the preparation of the financial statements and disclosures. These smaller counties like Alpine have less resources and access to qualified staff. Without the needed resources, counties are unable to implement the required system changes that ensure adequate controls over financial reporting without resulting in significant deficiencies or material weaknesses. As a result, these counties' ability to prepare financial statements in accordance with GAAP is based, in part, on their reliance on their external auditors, who cannot, by definition, be considered a part of the governments' internal controls.</p>
	<p>Beyond cash, fund balance, revenues and expenditures, the County's chart of accounts does not include accounts for deposits, grants receivable, taxes receivable, interest receivable, interfund balances and deferred revenues. Accounting processes utilized by the County are only able to capture transactions</p>

COUNTY OF ALPINE

Schedule of Findings and Questioned Costs Financial Statement Findings For the Year Ended June 30, 2008

Finding/Subject	Findings/Noncompliance
Finding 08-FS-3 (continued)	<u>Cause</u> (continued)
Use of Accounting System	<p>that include or affect cash. There are no accounting processes to capture transactions that affect other account balances such as those listed above. These transactions can be captured by implementing a closing period (such as a period 13th accrual period) and utilizing a general journal entry function in the County's general ledger application.</p>
	<u>Effect of Condition</u>
	<p>The County's accounting system does not directly translate to the information included in the County's financial report. This disparity is even more so apparent when examined in light of balances contained in the County's annual budget document which does not include the effect of the balances listed above. The volume of transactions and complexity of the entries increase the likelihood of material misstatements occurring in the County's financial reports. The Auditor-Controller's Office spends extra time collecting information about accruals and organizing it. External audit costs continue to rise because of the need to compile information about accruals and combine it with the County's general ledger before financial reports can be published. Combined, the issuance of the County's financial statements is delayed.</p>
	<u>Recommendation</u>
	<p>We recommend the County work with its accounting system IT support vendor to restructure its chart of accounts, add the needed accounts to accomplish accrual accounting and implement a general journal entry function. We strongly recommend consideration be given to establishing written procedures over this process and investing in staff training to ensure success.</p>
	<p>Steps that could be taken to implement this recommendation and remove the deficiency might include the following:</p>
	<ol style="list-style-type: none">1. Restructure chart of accounts to include accounts for deposits, grants receivable, taxes receivable, interest receivable, interfund balances and deferred revenues.2. Reconfigure accounting system to enable posting of non-cash related general journal entries.3. Reconfigure trust funds to be in compliance with GASB Statement No. 34.4. Post prior year audit adjustments so that beginning fund balances agree to prior year audited balances.

COUNTY OF ALPINE

Schedule of Findings and Questioned Costs Financial Statement Findings For the Year Ended June 30, 2008

Finding/Subject	Findings/Noncompliance
Finding 08-FS-3 (continued)	<u>Recommendation</u> (continued)
Use of Accounting System	<ol style="list-style-type: none">5. Develop year end closing checklist and written procedures.6. Train key county staff on accrual-based accounting concepts.7. Collect accrual-based information as of June 30, 2009, and prepare general journal entries to update and adjust year end balances.
	<u>Management Response</u>
	<p>In our continuing efforts to implement the SAS 112 requirements the Auditor's office will work with accounting system IT along with outside consultants to enhance the county internal controls by restructuring the chart of accounts and implementing the recommendations 1-7 to reduce reliance on external auditors. We will incorporate department training and end of year data collection in this process.</p>
Finding 08-FS-4	<i>Reporting Requirement: Material Weaknesses</i>
Processes to Identify Deferred Revenue Balances	<u>Criteria</u> <p>Governmental Accounting Standards Board (GASB) Statement No. 33, requires that resources received in advance of meeting all eligibility requirements should be reported as deferred revenue. These types of revenue are commonly referred to as unearned revenue.</p>
	<p>Under the current financial resources measurement focus and the modified accrual method of accounting employed by governmental type funds, revenues which are not available to finance expenditures of the fiscal period should be reported as deferred revenue, a liability, rather than as revenue. The County defines revenues available to finance expenditures as revenues collected within sixty days following the close of the fiscal year.</p>
	<u>Condition</u>
	<p>In the course of our audit, we identified unearned revenues of \$687,616 and unavailable revenues of \$654,028. All balances exceeded materiality limits.</p>
	<u>Causes</u>
	<p>Deferred revenues, both unearned and unavailable, are not recorded in the County's general ledger. The County does not have a system in place to identify</p>

COUNTY OF ALPINE

Schedule of Findings and Questioned Costs Financial Statement Findings For the Year Ended June 30, 2008

Finding/Subject	Findings/Noncompliance
Finding 08-FS-4 (continued)	<u>Causes</u> (continued)
Processes to Identify Deferred Revenue Balances	unearned revenue, revenues it has collected but for which eligibility requirements have not been met. Information collected about receivables does not include information about amounts collected after the availability period.
	<u>Effect of Condition</u>
	Material misstatements were noted in the County's financial statements resulting in an overstatement of revenues in the amount of \$1,341,644.
	<u>Recommendation</u>
	Ultimately, we recommend that the County's general ledger accurately reflect the balance of deferred revenues in two accounts: one for unearned revenues and one for unavailable revenues. Successful implementation of this recommendation depends on the implementation of our recommendation noted in finding 08-FS-2 and 08-FS-3.
	As an alternative solution, the Auditor-Controller's Office should implement a process to identify as of June 30 th of each year revenues which have been received but for which the eligibility requirements have not been met. Departmental assistance is essential to ensure the accuracy of the listing because of the numerous grants that exist. For unavailable revenues, the Auditor-Controller's Office should augment its already existing receivable process to identify receivables that are collected after the availability period has expired.
	<u>Management Response</u>
	The Auditor's office will expand our receivable process to include two new accounts for unearned and unavailable revenues and identify receivables to include those collected after the availability period has expired. We will also enlist department assistance in the process.

COUNTY OF ALPINE

Schedule of Findings and Questioned Costs Financial Statement Findings For the Year Ended June 30, 2008

<u>Finding/Subject</u>	<u>Findings/Noncompliance</u>
Finding 08-FS-5	<i>Reporting Requirement: Significant Deficiency</i>
Controls to Ensure Accuracy and Completeness of Financial Statement Disclosures	<p><u>Criteria</u></p> <p>The Committee of Sponsoring Organizations of the Treadway Commission published the Internal Control – Integrated Framework recognized by many as the model for internal controls over financial reporting. As part of that model, it established the importance of financial statements that are informative and adhere to generally accepted accounting principles. To carry out this responsibility, an entity must have proper internal controls over financial reporting that ensure that items in the financial statements are properly described, sorted and classified as required by recognized reporting standards.</p> <p><u>Condition</u></p> <p>The County does not have any control activities in place that would ensure the accuracy and completeness of financial statement disclosures in accordance with generally accepted accounting standards for governments.</p> <p><u>Cause</u></p> <p>Prior to the issuance of SAS 112, the County was able to rely on the external auditors to assist with the financial statements and related notes without the situation being considered a control deficiency.</p> <p>The County does not use a disclosure checklist as commonly used by external auditors for many years now to ensure the accuracy and completeness of the financial statement disclosures.</p> <p><u>Effect of Condition</u></p> <p>By not using a disclosure checklist, the risk of inaccurate or incomplete financial statement disclosures is significantly increased such that the County's financial statements would not adhere to generally accepted accounting principles for governments.</p> <p><u>Recommendation</u></p> <p>We recommend the County use a third-party financial statement disclosure checklist for governments to ensure that the financial statements prepared by the external auditors include all of the disclosures required by generally accepted</p>

COUNTY OF ALPINE

Schedule of Findings and Questioned Costs Financial Statement Findings For the Year Ended June 30, 2008

Finding/Subject	Findings/Noncompliance
Finding 08-FS-5 (continued)	<u>Recommendation</u> (continued)
Controls to Ensure Accuracy and Completeness of Financial Statement Disclosures	<p>accounting principles for governments and that the disclosures are accurate. Such third-party financial statement disclosure checklists are available for purchase from RIA (Thomson Reuters, formerly PPC) or CCH. The Government Finance Officer's Association also offers a checklist, used in their CAFR program, as a free download from their website.</p> <p><u>Management Response</u></p> <p>As part of the staff training the County will purchase disclosure checklists and have them available for reference.</p>

COUNTY OF ALPINE

Schedule of Findings and Questioned Costs Federal Award Findings and Questioned Costs For the Year Ended June 30, 2008

<u>Finding/Program</u>	<u>Findings/Noncompliance</u>
Finding 08-SA-1: Temporary Assistance for Needy Families CFDA 93.558 Award No. n/a Year: 07/08	<i>Federal Grantor: U.S. Department of Health and Human Services</i> <i>Pass-Through Entity: State Department of Social Services</i> <i>Compliance Requirement: Eligibility/Special Tests (IEVS)</i> <i>Reporting Requirement: Material Weakness; Material Noncompliance</i> <i>In Relation to a Compliance Supplement Audit Objective</i> <u>Criteria</u> As required by § 1137 of the Social Security Act, income and benefit information from the Income Eligibility and Verification System (IEVS) database must be requested and used when making eligibility determinations. The County must review and compare the information obtained from IEVS against information contained in the case record to determine whether it affects the individual's eligibility or level of assistance, benefits or services. <u>Condition</u> We tested 16 TANF case files and noted that in 12 case files the IEVS was either not signed, indicating the IEVS was used in eligibility determination, or in a few cases was missing. <u>Questioned Costs</u> No costs are questioned. Each of the recipients met the eligibility requirements. <u>Perspective</u> We believe that the unsigned IEVS were used in eligibility determination, but simply were not signed by the worker. <u>Effect of Condition</u> The IEVS system is an elaborate, federally-mandated system which compiles government information for the purpose of tracking federal program eligibility data. Not requesting and using IEVS in eligibility determination can result in individuals receiving benefits to which they are not entitled. Not signing the IEVS might indicate the review was not done.

COUNTY OF ALPINE

Schedule of Findings and Questioned Costs Federal Award Findings and Questioned Costs For the Year Ended June 30, 2008

Finding/Program

Findings/Noncompliance

Finding 08-SA-1: (continued)

Temporary
Assistance for
Needy Families
(TANF)
CFDA 93.558

Award No. n/a
Year: 07/08

Recommendation

We recommend that the Department review this omission to sign all IEVS after review when no discrepancies are noted. We recommend that the Department attempt to determine why the current system of controls failed to prevent these exceptions and that the Department establish and communicate a policy designed to ensure that IEVS information is requested, received, and reviewed and that this review is documented in each case.

Corrective Action Plan

The Department has reviewed the omission of signatures from the IEVS documents in the reviewed case files.

It appears for a limited time, signatures had been omitted. However, we must state that the documents were reviewed and handled in compliance with procedure.

The Department has conducted a review and training on IEVS policy and procedure. We will be reviewing this policy on an annual basis. It will coincide with the annual review of Security and Confidentiality of IEVS documents.

Contact Person: Regina Britschgi, Integrated Caseworker III
530-694-2235

COUNTY OF ALPINE

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2008

Audit Reference Number	Status of Prior Year Audit Findings
Finding 07-SA-1	<u>Recommendation</u>
Block Grants for Prevention and Treatment of Substance Abuse (SAPT)	We recommend that the requirements of OMB A-87 regarding charges for payroll be followed. This can be accomplished either by allocating payroll as reported on personnel activity reports initially or by adjusting the budgeted time to personnel activity reports on at least a quarterly basis.
CFDA 93.959	<u>Status</u>
Award No. n/a Year: 06/07	Corrected.
Finding 07-SA-2	<u>Recommendation</u>
Public Assistance Grants	We recommend that the County review all expenditures reported on the SEFA for accuracy and compare what is recorded in the general ledger. We also recommend that the County have more than one person review the SEFA to help ensure that all programs are reported prior to the first day of the audit.
CFDA 93.936	
Award No. FEMA-1628-CR- CA	<u>Status</u>
Year: 06/07	Partially corrected. Significant improvements were made this year. A few programs required adjustments from what was originally reported but none of the adjustments were material. There was also one federal program that was not originally reported on the SEFA.

**SUPPLEMENTARY SCHEDULES
OF GRANT EXPENDITURES**

COUNTY OF ALPINE

Supplementary Schedules of Grant Expenditures For the Year Ended June 30, 2008

State Office of Emergency Services

The following represents expenditures for the Office of Emergency Services programs for the year ended June 30, 2008. The amount reported in the Schedule of Expenditures of Federal Awards is determined by calculating the federal portion of the current year expenditures.

Program	Expenditures Claimed			Share of Expenditures Current Year		
	For the Period Through June 30, 2007	For the Year Ended June 30, 2008	Cumulative As of June 30, 2008	Federal Share	State Share	County Share
VW07080020 - Victim Witness Program						
Personal services	\$ --	\$ 26,840	\$ 26,840	\$ 15,577	\$ 11,263	\$ --
Operating expenses	--	12,511	12,511	--	12,511	--
Equipment	--	--	--	--	--	--
Totals	<u>\$ --</u>	<u>\$ 39,351</u>	<u>\$ 39,351</u>	<u>\$ 15,577</u>	<u>\$ 23,774</u>	<u>\$ --</u>
VP06040020 - Vertical Prosecution						
Personal services	\$ --	\$ 4,798	\$ 4,798	\$ --	\$ 4,798	\$ --
Operating expenses	16,903	21,876	38,779	--	21,876	--
Equipment	443	26,325	26,768	--	26,325	--
Totals	<u>\$ 17,346</u>	<u>\$ 52,999</u>	<u>\$ 70,345</u>	<u>\$ --</u>	<u>\$ 52,999</u>	<u>\$ --</u>
VP07050020 - Vertical Prosecution						
Personal services	\$ --	\$ 3,201	\$ 3,201	\$ --	\$ 3,201	\$ --
Operating expenses	--	15,052	15,052	--	15,052	--
Equipment	--	1,469	1,469	--	1,469	--
Totals	<u>\$ --</u>	<u>\$ 19,722</u>	<u>\$ 19,722</u>	<u>\$ --</u>	<u>\$ 19,722</u>	<u>\$ --</u>
DC07180020 - Anti-Drug Abuse Grant						
Personal services	\$ --	\$ 108,879	\$ 108,879	\$ 108,879	\$ --	\$ --
Operating expenses	--	--	--	--	--	--
Equipment	--	--	--	--	--	--
Totals	<u>\$ --</u>	<u>\$ 108,879</u>	<u>\$ 108,879</u>	<u>\$ 108,879</u>	<u>\$ --</u>	<u>\$ --</u>